

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 INT-05 FEAE-00 OES-05 NEA-09

AID-05 CIAE-00 COME-00 EB-07 FRB-01 INR-07 NSAE-00

RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04

SIL-01 OMB-01 DODE-00 PM-03 H-02 L-02 NSC-05 PA-02

PRS-01 SS-15 USIA-15 STR-04 CEA-01 /133 W

----- 070375

R 071811Z FEB 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7825

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING FEBRUARY 6)

REF.: (A) BONN 2097; (B) BONN 1748

1. POEHL SAYS DEFICIT NATIONS SHOULD SELL THEIR GOLD:
THE PRESS REPORTS THAT FINANCE MINISTRY STATE
SECRETARY POEHL SAID IN A SPEECH IN COLOGNE THIS WEEK
THAT ONE OF THE GREAT PROBLEMS DURING THE COMING MONTHS
WILL BE AVOIDING THE FINANCIAL COLLAPSE OF INDUSTRIAL
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NATIONS WITH LARGE BALANCE OF PAYMENTS DEFICITS. HE

SAID THAT DEFICIT COUNTRIES, PRIOR TO SEEKING CREDIT FROM ANY COLLECTIVE SOURCES, MUST FULLY UTILIZE THEIR RESERVES, AND THIS INCLUDES SELLING THEIR GOLD. HE SAID THAT THE SURPRISE OF 1974 WAS THE SUCCESS IN FINANCING GIGANTIC DEFICITS BUT THAT FOR THE FUTURE IT IS ABSOLUTELY NECESSARY TO CREATE NEW FINANCING METHODS. THE OUTLOOK FOR A SOLUTION TO THE DEFICIT PROBLEM WAS "NOT TOO BAD" IN HIS VIEWPOINT. FURTHERMORE, ACCORDING TO PRESS REPORTS, HE DOESN'T SEE THE OIL CARTEL AS SOMETHING WITH ETERNAL LIFE. WITH EACH PASSING DAY CONSERVATION MEASURES, ENERGY SUBSTITUTES AND NEW SOURCES OF OIL MAKE THE COLLAPSE OF THE CARTEL MORE LIKELY.

2. DESPITE ITS STRONG TRADE SURPLUS IN 1974 (DM 50.8 BILLION) FRG OVERALL BALANCE OF PAYMENTS ENDED THIS YEAR WITH A DM 9.1 BILLION DEFICIT. THE DEFICIT IN SERVICE TRANSACTIONS WHICH DOUBLED DURING 1974 TO DM 10 BILLION AND UNILATERAL TRANSFERS WHICH INCREASED TO DM 16.9 BILLION RESULTED IN A CURRENT ACCOUNT SURPLUS OF DM 23.9 BILLION. LONG-TERM CAPITAL OUTFLOWS OF DM 5.3 BILLION PROVIDED A BASIC BALANCE OF DM 18.5 BILLION. SHORT-TERM CAPITAL EXPORTS DURING 1974 MEASURED AT DM 19 BILLION, AND UNCLASSIFIABLE TRANSACTIONS, AT DM 1.4 BILLION, REDUCED THE PAYMENTS POSITION TO A DM 1.9 BILLION DEFICIT. THE BOOKKEEPING LOSS OF DM 7.2 BILLION IN BUNDESBANK CURRENCY RESERVES TO REFLECT THE RISE IN THE VALUE OF THE DM AGAINST OTHER CURRENCIES FURTHER LOWERED THE BALANCE OF PAYMENTS TO THE DM 9.1 BILLION DEFICIT.

3. MUTUAL FUNDS CONTEMPLATE SPECIAL INVESTMENT OPPORTUNITIES FOR OIL EXPORTING COUNTRIES: ACCORDING TO PRESS REPORTS, A NUMBER OF GERMAN INVESTMENT COMPANIES ARE STUDYING EXISTING LAWS AND REGULATIONS WHICH MIGHT PERMIT THE OFFERING OF SPECIAL INVESTMENT FUNDS FOR SUBSCRIPTION BY THE OIL PRODUCING NATIONS. THE FUNDS, ACCORDING TO THESE REPORTS, WOULD REPORTEDLY BE OPEN-ENDED AND WOULD NOT BE PUBLICLY OFFERED. THE REPORTS NOTE FURTHER THAT "CAUTIOUS APPROACHES" HAVE ALREADY UNCLASSIFIED

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BEEN MADE TO CERTAIN COUNTRIES IN THE MIDDLE EAST TO EXPLORE AND BETTER UNDERSTAND THE DESIRES OF THE POTENTIAL INVESTORS BUT THAT THE ACTUAL CREATION OF AN "ARAB-FUND" COULD STILL BE SOME TIME OFF SINCE IT ISN'T CLEAR YET THAT THE BOARDS OF DIRECTORS OF THE VARIOUS INVESTMENT COMPANIES HAVE GIVEN THEIR FULL APPROVAL TO SUCH SCHEMES.

4. FOREIGN EXCHANGE MARKET: DURING THE REPORTING WEEK
SPOT AND FORWARD DOLLARS DEVELOPED AS FOLLOWS:

FORWARD DOLLARS				
(DISCOUNTS IN PCT. P.A.)				
SPOT DOLLARS		ONE-MONTH	THREE-MONTH	
JAN 31	DM 2.3410	#0.3	-0.2	
FEB 3	2.3245	#0.5	-0.2	
4	2.3755	0.0	-0.3	
5	2.3820	-0.3	-0.2	
6	2.3815	-0.5	-0.5	

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WITHIN THE JOINT FLOAT ALL CURRENCIES, WITH THE EXCEPTION OF THE DANISH AND NORWEGIAN CROWNS, WERE ABOVE THEIR DM CENTRAL RATE. NONE REACHED THEIR UPPER DM INTERVENTION RATE.

5. MONEY MARKET: THE GERMAN MONEY MARKET EASED DURING THE WEEK. ON FEBRUARY 5 CALL MONEY FELL BELOW THE REDISCOUNT RATE OF 6 PERCENT IN EFFECT SINCE DECEMBER 19, 1974. (THE CENTRAL BANK COUNCIL LOWERED THE REDISCOUNT RATE TO 5.5 PERCENT AT ITS MEETING FEBRUARY 6, SEE UNCLASSIFIED

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REFTEL A.). DURING THE REPORTING WEEK FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

JAN 31	7.3-7.8	7.2-7.5	7.3-7.6
FEB 3	7.0-7.5	7.0-7.3	7.2-7.5
5	6.4-6.7	6.7-7.1	7.1-7.4
4	5.0-5.5	6.0-6.5	6.5-7.0
6	5.2-4.8	6.3-6.6	6.8-7.2

6. MONETARY RESERVES: IN THE THIRD WEEK OF JANUARY (JANUARY 17-23) BUNDESBANK MONETARY RESERVES INCREASED BY DM 0.2 BILLION TO DM 82.5 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE INCREASED BY DM 306 MILLION AND GROSS LIABILITIES BY DM 97 MILLION WHILE GERMANY'S IMF GOLD TRANCHE POSITION FELL BY DM 7 MILLION.

7. BANK LIQUIDITY: DURING THE THIRD WEEK OF JANUARY BANK LIQUIDITY INCREASED BY DM 0.3 BILLION. LIQUIDITY WAS INCREASED PRINCIPALLY THROUGH A DECLINE IN HOLDINGS OF RESERVES AT THE BUNDESBANK (DM 4.6 BILLION) AND THE DECLINE IN CURRENCY IN CIRCULATION (DM 2.4 BILLION). BANK LIQUIDITY INCREASED FURTHER BY THE ABOVE-MENTIONED INCREASE IN MONETARY RESERVES. THE MAJOR FACTOR REDUCING LIQUIDITY WAS A DM 5.8 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK. OTHER FACTORS, NET, REDUCED LIQUIDITY BY DM 1.1 BILLION. DURING THE THIRD WEEK IN JANUARY BANKS REDUCED LOMBARD BORROWINGS BY DM 0.4 BILLION AND RAISED REDISCOUNT BORROWINGS BY DM 0.1 BILLION.

8. BOND MARKET: DURING THE REPORTING WEEK THE FAZ AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC

BONDS DEVELOPED AS FOLLOWS:

	8 PERCENT	7 PERCENT	6 PERCENT
JAN 31	9.56	9.46	9.16
FEB 3	9.54	9.42	9.12
4	9.54	9.40	9.08
5	9.50	9.37	9.08

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6	9.43	9.32	9.02
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THE COUNCIL OF EUROPE, STRASBOURG, WILL ISSUE A DM 20 MILLION LOAN AS PRIVATE PLACEMENT (COUPON 9.5 PERCENT; MATURITY 7 YEARS). ALSO AS PRIVATE PLACEMENT THE CAISSE NATIONALE DES TELECOMMUNICATIONS, PARIS, WILL ISSUE A DM 50 MILLION LOAN (COUPON 9.25 PERCENT; ISSUE PRICE 100 PERCENT; MATURITY 8 YEARS). THE COMMERZBANK A.G. IS NEGOTIATING WITH THE NORSK-HYDRO, OSLO, ON THE ISSUE OF A DM 100 MILLION LOAN -- CONDITIONS NOT YET KNOWN. THE FINAL CONDITIONS OF THE DM 50 MILLION LOAN OF THE CITY OF MALMOE, SWEDEN (SEE REFTTEL B) ARE: COUPON 9.25 PERCENT; ISSUE PRICE 99 PERCENT; MATURITY 7 1/2 YEARS; YIELD TO MATURITY 9.44 PERCENT).

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